

State Retiree Benefits Trust Fund

Frequently Asked Questions

1. *What is the effect of the new legislation and procedures?*

Overview

Chapter 68 of the Acts of 2011, the FY 2012 state budget, was signed into law by Governor Patrick in July 2011. Sections 50 and 57 of Chapter 68 amend **Section 24 of Chapter 32A** and **Section 20 of Chapter 32B**, respectively, of the General Laws allowing municipalities, authorities, and certain other government entities of the Commonwealth to establish a liability trust fund for funding retiree benefits (other than pension), also known as Other Post-Employment Benefits (OPEB). The legislation also ensures that these entities have access to the state's investment trust, the State Retiree Benefits Trust Fund (SRBTF), for purposes of investing OPEB funds. Further, Section 20 of Chapter 32B, as amended, designates the entities eligible to serve as custodian of such funds: 1) a designee appointed by the board of a municipal lighting plant, 2) the treasurer of any governmental unit, or 3) the Health Care Security Trust (HCST) Board of Trustees, which oversees the SRBTF.

Section 20 of Chapter 32B – Government entities that have not yet established an OPEB Trust

Government entities who have not yet established an OPEB Trust should adopt Section 20 of Chapter 32B. Entities that adopt this section may invest in the SRBTF either directly by designating the HCST as the custodian, or through the action of their designated custodian (e.g. treasurer) who may be authorized by the government entity to invest in the SRBTF, as provided by Section 24 of Chapter 32A. Investment in the SRBTF requires approval of the HCST Board as described in question 4 below.

Section 20 may be accepted in a city having a Plan D or Plan E charter, by a vote of the city council; in any other city, by a vote of the city council and approval of the mayor; in a town, by vote of the town at a town meeting; in a district, by a vote of the governing board; in a municipal lighting plant, by a vote of the board; and in a county, by vote of the county commissioners.

Section 24 of Chapter 32A – Government entities that have already established an OPEB Trust

The amended Section 24 of Chapter 32A provides that any political subdivision, municipality, county or agency or authority of the Commonwealth may participate in the SRBTF in accordance with the HCST's procedures. Government entities who have already established an OPEB Trust through special legislation may invest in the SRBTF under this Section and are not required to adopt Section 20 of Chapter 32B, except in those cases where the special legislation provides that the OPEB fund's custodian may only invest in securities that are legal for the investment of funds of savings banks under the laws of the Commonwealth, or where the special legislation provides that municipalities "may participate in the (OPEB liability trust) fund." The entities that are eligible to invest in the SRBTF without adopting Section 20 of Chapter 32B include contributory retirement systems that were designated as the custodian of an OPEB liability trust fund before July 1, 2011, as provided by Section 206 of said Chapter 68. Investment in the SRBTF requires approval of the HCST Board as described in question 4 below.

For the detailed legislation, please go here:

<http://www.mass.gov/anf/press-releases/state-to-provide-access-to-investment-vehicle-for.html>)

2. *What is the name of the Commonwealth's OPEB liability fund and how is the money invested?*

The seven-member HCST Board, established by section 4 of Chapter 29D of the General Laws, is responsible for the administration and investment management of the State Retiree Benefits Trust Fund (SRBTF), the Commonwealth's OPEB liability fund. The HCST Board is comprised of the Secretary of Administration & Finance or a designee, the Executive Director of the Group Insurance Commission or a designee, the Executive Director of the Public Employee Administration Commission (PERAC) or a designee, the State Treasurer or a designee, the Comptroller or a designee, an appointee of the Governor, and an appointee of the State Treasurer (both appointed members are required to have investment, financial management, legal, or public management experience). In August 2011, the HCST Board voted to assign full investment management of the SRBTF assets to the nine-member Pension Reserves Investment Management (PRIM) Board, which manages the approximately \$50 billion Pension Reserves Investment Trust (PRIT) Fund, the state pension fund. PRIM and PRIT were established in 1983 to address the Commonwealth's unfunded pension liabilities. The PRIM Board is chaired by the State Treasurer, or his/her designees, and includes the Governor, or his/her designee, appointees of the State Treasurer and Governor, and other elected beneficiary representatives. In addition to investing the pension funds of state employees, municipal teachers, and Boston-teachers, PRIM also manages the assets of 90 local retirement systems, which represent 88% of all the retirement systems in the Commonwealth (there are 105 retirement systems). PRIM employs a professional staff of approximately 25 people that oversees the daily investment and financial functions of the PRIT Fund. The SRBTF is invested in the PRIT Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. The target asset allocation of the PRIT Core is as follows: 43% Global Equities, 13% Core Fixed Income, 10% Value Added Fixed Income, 10% Private Equity, 10% Real Estate, 4% Timberland/Natural Resources, and 10% Hedge Funds. The HCST works in close partnership with PRIM, and PRIM provides full investment and back office support to the HCST, pursuant to Investment Services and Administrative Services Agreements signed by both parties in October 2011. More detailed information about PRIM and PRIT can be found on their website at <http://www.mapension.com>.

3. *What are some of the benefits to investing in the PRIT Core Fund through the SRBTF?*

PRIM and PRIT were created for the sole purpose of reducing the state's unfunded pension liability through modern investment portfolio management, and investment of OPEB funds in the PRIT Core Fund is a natural adjunct to PRIM's retirement asset-focused mission. Because of its asset size, PRIM enjoys economies of scale, and can offer participation in the PRIT Core Fund at to its investors at fees that are significantly lower than the investors could get on their own. Participants that invest in the PRIT Core Fund also have access to alternative investments that may be unavailable to smaller investment funds, such as private equity (venture capital and special equities or buyouts), directly owned private real estate, private debt, and hedge funds, which mitigate overall portfolio risk because of their low correlation to traditional stock and bond portfolios.

4. *How does a government entity make an investment in the SRBTF*

Government entities who would like to invest funds in the SRBTF for purposes of funding their OPEB liabilities are required to execute a Form of Investment and Custodian Agreement with the HCST, which documents the authority to make the investments and makes reference to certain governing, policy, and procedures documents that dictate how the funds are managed and administered. (These documents [Exhibits B-F] may be downloaded from this website.) Government entities that do not choose to designate the HCST as custodian are only required to execute the investment portion of the agreement.

The assets of a local government entity will be “commingled” with other participants in the SRBTF, and each participant will receive units of participation, or shares, in the SRBTF. Each local government entity will receive a monthly capital account statement directly from PRIM’s custodian bank, showing beginning and ending net asset value balances, management fees, realized and unrealized investment gains/losses, and other investment income attributable to its portion of the SRBTF.

The approval of the HCST Board requires that the SRBTF be an allowable investment vehicle based on the authorization resolutions or special legislation of each government entity. This requirement may be satisfied by appointing the HCST as custodian or by identifying the SRBTF as an authorized vehicle for a different designated custodian, or through authorization to apply the prudent investor rule by special legislation. Authorizing resolutions adopted pursuant to Chapter 32B, Section 20 or special legislation, and all agreements with the HCST will be reviewed at HCST Board meetings according to the calendar below:

Tuesday, February 12, 2013
Tuesday, April 9, 2013
Tuesday, June 25, 2013
Tuesday, August 13, 2013
Tuesday, October 22, 2013
Tuesday, December 10, 2013

HCST Board meetings are usually held in ANF Conference Room 1 in Room 373 of the State House, Boston, MA beginning at 9:00am.

A government entity may terminate its Agreement with HCST following 30 days’ prior written notice. Redemption of assets would be made on the first business day of the month following the receipt of such written notice. Such a decision may require a vote of the governing body of the municipality or other entity.

5. *Does a governmental entity have the option to invest in separate asset classes of the PRIT Core as an alternative to investing in the total PRIT Core?*

No. This type of investment, which is called “Segmentation” by PRIM, and made available to participants investing pension assets in the PRIT Fund, is not an option available to participants investing OPEB assets in the SRBTF at this time. Because OPEB liabilities are severely underfunded, the HCST believes that the most appropriate model to address unfunded liabilities is the PRIT Core asset allocation, as it is positioned to close the pension asset/liability gap in

accordance with an amortization schedule mandated by state law. Going forward, as the SRBTF program matures and OPEB liabilities become more fully funded the option of allowing Segmentation may be revisited.

6. *What if my government entity had special legislation approved to establish an OPEB liability trust fund prior to the enactment of the provisions contained in Chapter 68 of the Acts of 2011?*

A governmental entity that had already established an OPEB liability trust fund prior to the enactment of Chapter 68 of the Acts of 2011 may invest in the fund pursuant to the provisions of Section 24 of Chapter 32A or may accept the provisions of Section 20 of Chapter 32B, both of which, which require authorization by the HCST Board. Section 20(c) establishes the votes and procedures to be followed by the various governmental entities for acceptance.

7. *What about fees?*

Investment management fees are netted out of investment returns and are paid from the SRBTF's cash account, so there is no need for the local government entity to ever "cut a check" to the HCST or PRIM for services rendered. Each local governmental unit will be assessed its share of fees on a pro rata basis. Fees are based on the actual expenditures incurred by PRIM and PRIT in administering the SRBTF and are "passed through" to the HCST Board and the participating state and local government entities that invest in the SRBTF. According to the most recent audited financial statements of the PRIT Fund, the ratio of expenses, including all fees associated with the operation of PRIM and PRIT, was 0.50%, or 50 basis points. Please be advised that the aforementioned basis point fee reflects actual expenditures incurred in FY 2011 and is not meant to represent or guarantee future fees.

In addition to these fees, there will be a charge for accounting and reporting for SRBTF clients by PRIM's custodian bank. The additional custody work involves the division of the primary SRBTF account into separate client accounts, as well as producing monthly reports for clients and handling cash deposits and withdrawals for SRBTF clients. The custodian bank has created a separate database program to produce the monthly SRBTF client reports.

8. *Is the SRBTF a Qualified OPEB Trust under GASB 43?*

Yes. The SRBTF is a qualified OPEB trust.

9. *Are there any annual minimum or maximum contribution requirements?*

The HCST Board of Trustees has set a minimum investment requirement of \$250,000 and a non-binding plan for qualified governmental entities to reach \$1,000,000 over three years.

10. *We have some funds currently invested in bonds and stocks. Can we transfer those assets "in-kind"?*

The HCST will only accept cash transfers into the SRBTF. Securities, such as stocks and bonds, must be liquidated before any transfer to the SRBTF takes place.

11. *Where can I find information on the historical returns of the PRIT Core Fund, including comparisons to market indices, and peer trust funds?*

Detailed current and historical information on the PRIT Core Fund and the PRIM Board can be found on the PRIM website at: <http://www.mapension.com>.

You may also find additional historical investment performance information comparing the PRIT Fund to other Massachusetts public employee contributory retirement systems on the Public Employee Retirement Administration Commission (PERAC) website at: <http://www.mass.gov/perac/index.htm>

12. *Where do I submit the documents and whom do I contact for more information?*

You may contact Paul Todisco, PRIM's Senior Client Services Officer:

Paul Todisco
Senior Client Services Officer
Pension Reserves Investment Management Board
84 State Street, 2nd Floor
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617-946-8423
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Paul is also available to meet with you or your local officials at any time to discuss the benefits of investing in the SRBTF.